Manitoba

Annual Report 1988

The Public Utilities Board

90-00338/

THE PUBLIC UTILITIES BOARD

ANNUAL REPORT

1988

To the Honourable James C. McCrae,
Minister of Cooperative, Consumer &
Corporate Affairs,
104 Legislative Building,
Winnipeg, Manitoba.
R3C 0V8

Sir:

Section 109(1) of The Public Utilities Board Act (CAP. P280, R.S.M. 1987) directs that the Manitoba Public Utilities Board

> "...shall, on or before the first day of March in each year, transmit to the Minister a report for the year ending the thirty-first day of December of the last preceding year..."

including therein summaries and statistics pertaining to all findings and activities of the Board.

Section 109(2) of The Public Utilities Board Act directs that the Report of the Board thus transmitted to the Minister

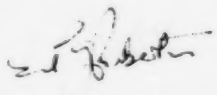
> "...shall be submitted to the Legislature if it then is in session and, if not, at the next session thereof."

Pursuant to the provisions of Section 109(1) of the Act, I am pleased to submit to you as Minister under the Act, the Twenty-Ninth Annual Report of the Manitoba Public Utilities Board, pertaining to the year ending on the thirty-first day of December, 1988. This Annual Report is submitted to you on behalf of my colleagues who comprise the Board for the period covered by this Report.

The Board has now discharged its responsibilities in all particulars pursuant to Section 109(1) of The Public Utilities Board Act.

Respectfully submitted, this 28th day of February, 1989.

Sincerely,



Edward J. Robertson,
Chairman.

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RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under The Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsibilities to the Board are:

The Crown Corporations Public Review and Accountability and Consequential Amendments Act (proclaimed on January 17, 1989)
The Greater Winnipeg Gas Distribution Act
The Gas Pipe Line Act
The Gas Storage and Allocation Act
The Prearranged Funeral Services Act
The Cemeteries Act
The Municipal Act (Local Utilities)
The Manitoba Water Services Board Act (Appeals)
The Highways Protection Act (Appeals)
The Manitoba Telephone Act
The Manitoba Hydro Act (Appeals, Reference)

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

BOARD PERSONNEL

At the date of this Report, the Board consists of nine Members assisted by a Secretariat, as noted below:

Chairman of the Board	Mr. E. J. Robertson
Vice-Chairman	Mr. O. Tonn
Member	Mr. R. Schilling
Member	Ms. S. Proven
Member	Ms. R. McNeill
Member	Mr. J. Taylor
Member	Mr. M. Anseeuw *
Member	Ms. E. Janzen *
Member	Ms. L. Gosselin *
Executive Secretary	Mr. G. O. Barron
Associate Secretary	Mr. D. C. de Graff
Acting Secretary	Mr. B. Ball

* appointed on December 21, 1988

Professional, technical and expert assistance is regularly available to the Board, as authorized by statute and/or by Order-in-Council in respect of the appropriate statutory provisions in The Public Utilities Board Act. Such legal, engineering, accounting and other professional or technical staff support providing service to the Board is exclusively and wholly by statute under Board direction in respect of that service. These Advisors, who are employed on an "as needed" basis are paid fees set by Order-in-Council on an

"as utilized" basis, plus expenses, with such disbursements being recoverable to a large extent from the utilities regulated. The Board is empowered by The Public Utilities Board Act to secure such other assistance as it deems appropriate in the process of adjudication, with the related disbursements, if any, being charged directly to the parties as the Board may determine.

BOARD MEETINGS AND HEARINGS

A total of 93 Board Meetings and public hearings were held in 1988:

Board Meetings	60
Public Hearings Days	29
Pre-Hearing Conference Days	4

ORDERS ISSUED

During the year ending December 31, 1988, 159 Orders were issued, as follows:

Regulated Industry Orders:

Public Utilities Board Act	1
Water and Sewer Utilities	86
Natural Gas and Propane Utilities	17
Manitoba Telephone System	47
Manitoba Hydro	2
Transit	1
Manitoba Public Insurance Corporation	1

Highways Protection Act Orders:

Appeals	3

Miscellaneous:

The Gas PipeLine Act	1

NOTE: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's offices upon request.

NATURAL GAS DISTRIBUTION UTILITIES

GENERAL

Agreement on Natural Gas Markets and Prices

The Federal Government and the gas producing provinces of Alberta, British Columbia and Saskatchewan entered into an Agreement titled "Agreement on Natural Gas Markets and Prices" (the October Agreement) dated October 31, 1985 whereby the setting of natural gas prices at the Alberta Border was to be abolished.

Under this new regime the Greater Winnipeg Gas Company (GWG) and ICG Utilities (Manitoba) Ltd. (ICG), together to be known as (Companies), like the utilities in other jurisdictions were required, in the early stages to negotiate their supply arrangements and to put in place a pricing agreement with the marketing arm of TransCanada PipeLines Limited (TCPL), known as "Western Gas Marketing Limited" (WGML), its traditional supplier of natural gas. Such pricing agreements were intended to replace the abolished administered Alberta Border Price.

The Companies entered into their first pricing agreements on October 23, 1986 which were the subject of the Companies' applications to the Board dated December 17, 1986. While the Companies in these applications, were seeking the Board's approval for rates for a two (2) year period ending October 31, 1988 the Board, following a joint hearing/ Ministerial inquiry, amended the rates applied for by the Companies and approved such rates for one (1) year.

In amending the Companies' applications the Board in its Order No. 89/87 and its report to the Minister identified its concerns regarding the evaluation of the deregulation process.

On October 30, 1987 the Companies applied to the Board for approval of a new schedule of rates flowing from "new" pricing agreements with TCPL for the period November 1, 1987 to October 31, 1988.

The Board, having satisfied itself that the proposed applications addressed a number of those concerns previously identified by the Board and noting that a reasonable cost for natural gas had been assured for the contract period, approved the Companies' applications for rates for the one (1) year ending October 31, 1988.

On October 17, 1988 the Companies submitted a third application to the Board for rates flowing from agreements with TCPL/WGML and if approved by the Board would satisfy a Condition Precedent in the Companies' Natural Gas Contracts (NGC) that would bind the Companies to the terms and conditions of that contract and a supply of natural gas for the period from November 1, 1988 to October 31, 2005.

Notwithstanding that the Companies were seeking minor adjustments in rates for the first two (2) years of the NGC, the Board in Interim Ex Parte Order Nos. 137/88 for GWG and 138/88 for ICG approved the continuation of the existing rate schedules on an interim basis, pending a full public hearing into the matter.

While the previous Pricing Agreements established only a price for natural gas in existing contracts, the Companies, in these applications, were seeking the Board's approval of natural gas rates which, if approved, would provide the necessary regulatory authorization for the Companies to implement the NGC which included the pricing provisions as well as new supply terms and conditions.

The Notice of Public Hearing dated October 20, 1988 summarized some of the terms and conditions of the NGC which are repeated below:

"(a) Sale of gas will take place immediately east of the Alberta/Saskatchewan border. Currently, the sale takes place in Manitoba.

(b) WGML will hold the transportation contract with TCPL under which gas will be transported from the Alberta/Saskatchewan border to the Companies' delivery points. The Companies shall reimburse WGML for transportation costs.

(c) Term of contract is 15 years.

(d) Volume - Except as noted below, the Companies must purchase all of their requirements from WGML, other than to facilitate direct purchases.

(e) Winter peak day supplies may be purchased from suppliers other than WGML.

(f) Tendering Rights - In the 3rd, 4th or 5th year of the contract the Companies can collectively tender for a maximum of 5 BCF of gas and if the right is exercised WGML can withdraw an equal amount.

(g) (i) Price from January 1, 1989 to October 31, 1990 - $2.20 per gigajoule (GJ);

(ii) Price thereafter shall be equal to the weighted average 100% load factor price paid to WGML or TCPL under firm gas sales contracts with Ontario gas distribution companies having a primary term of 10 years or more.

(h) Price Redetermination Clauses - Five (5) events have been itemized that can trigger arbitration of prices and if triggered the following are the alternate terms and conditions of the Replacement Contracts:

(i) Transportation Contract in the name of WGML is assigned to the Companies;

(ii) Gas Supply for which price is to be arbitrated is to be split in two (2) blocks - Block A being the firm non-industrial customers and Block B being all other customers;

(iii) The price of Block A volumes will consist of two (2) parts - a demand charge of $0.60/GJ which shall not be subject to modification by arbitration and a commodity charge to be agreed upon between the parties or if no agreement, to be arbitrated.

(iv) Block B volumes will be sold at terms and conditions set by the market for similar sales.

(i) Termination Rights of WGML of Block A Gas - If as a result of direct purchase displacement, the Companies do not maintain 80% of their market, then WGML, on Notice, may reduce the term of the agreement no earlier than 3 years after the day the Notice is given.

(j) WGML will pay to the Companies a total of $100,000 per month for the right to use the unutilized portion of the transportation contract. WGML shall have access to not less than 6 BCF of transportation capacity annually (total between the Companies) for markets outside of Manitoba."

The Board scheduled public hearings for January, 1989 and at the time of this writing the Board's decision remains outstanding.

The following Table 1 shows the impact on an annual gas bill for typical residential and commercial customers of GWG and ICG since prior to deregulation to and including the November 1988 agreement currently before the Board.

It became evident at these hearings that in satisfying another Condition Precedent requiring WGML to seek producer support for the NGC that in so doing, WGML put to the producers all distributors' NGC's as a whole. Accordingly, in the opinion of WGML, if any one NGC in any of the consuming Provinces of Quebec, Ontario or Manitoba does not receive regulatory approval, then the Condition Precedent has not been satisfied. This information caused the Board some concern and while a decision of the Board was first required by January 31, 1989 this date has been extended at the date of this writing to March 20, 1989. This new date will accommodate

extended hearing times in Ontario and accommodate a decision of this Board not to give its decision on this application prior to the conclusion of the Ontario Energy Board hearings and prior to consultation with regulatory authorities in Quebec and Ontario.

As noted in the Board's 1987 Annual Report, the Board, in Order No. 119/87 dated July 21, 1987 approved "buy-sell arrangement" (*) criteria for both Companies. In this calendar year seven (7) buy-sell arrangements were approved for GWG and one (1) for ICG. Details of such Orders of the Board are noted under each Companies' heading.

On May 2, 1988 the Board received an application from the Companies to consider, amongst other things, the approval for the introduction of transportation services (T-Services) (**)and corresponding rates on their distribution system. Following public hearings held in June of 1988 the Board issued Order No. 112/88 dated July 29, 1988 approving firm and interruptible T-Service. In its Order the Board set out certain contractual conditions it wished embodied in such arrangements.

While the Companies were seeking the Board's approval to eliminate buy-sell arrangements, the Board in its Order required the continuation of the buy-sell arrangements for those customers that preferred this arrangement.

* "buy-sell arrangement" - is an arrangement whereby the consumer who purchases natural gas directly from a producer in Alberta and/or a broker in Manitoba or any other province would be required to resell ownership of the gas to the utility where it enters the distribution system.

** "T-Service" - a firm or interruptible gas transportation service provided under contract for transportation of natural gas which is not owned by a pipeline company or a distributor.

In reviewing the buy-sell and T-Service arrangement criteria, the Board considered the provisions of the newly proclaimed Part IV of The Public Utilities Board Act and more specifically, the requirements of Section 114 of Part IV requiring persons selling, delivering, purchasing directly, distributing, etc. natural gas in the Province to seek an Order of the Board. In this regard the Board issued Order No. 113/88 dated July 29, 1988.

Currently, persons in Manitoba are able to arrange a direct purchase of natural gas from a producer, agent or broker and transport that supply, once received at the Companies' interconnections with TCPL, to their facilities via the Companies' distribution systems by entering into buy-sell arrangements or T-Service.

While certain types of customers may be unable to arrange a direct purchase either because it is not economic or because of constraints in other jurisdictions, these customers are able to receive unrestricted access to the distribution network in Manitoba.

GREATER WINNIPEG GAS COMPANY
AND
ICG UTILITIES (MANITOBA) LTD.

IMPACT ON ANNUAL GAS BILL
FOR TYPICAL RESIDENTIAL AND COMMERCIAL CUSTOMERS

TABLE 1

		ANNUAL GAS BILL				
					NOVEMBER 1988 AGREEMENT	
GREATER WINNIPEG GAS COMPANY	AVERAGE ANNUAL USE PER CUSTOMER	PRIOR TO NOV.1, 1986 PRE-DEREGULATION	1986/87 GAS PRICING AGREEMENT	1987/88 GAS PRICING AGREEMENT	NOV. 88/OCT. 89 ANNUALIZED RATE	POST NOV.1/89 ANNUALIZED RATE
	MCF	$	$	$	$	$
RESIDENTIAL	131	678	667	610	606	605
COMMERCIAL	1,284	6,160	6,056	5,431	5,390	5,385
ICG UTILITIES (MANITOBA) LTD.						
RESIDENTIAL:						
BRANDON	131	619	612	545	537	535
SOUTHEAST	131	649	640	572	565	563
ICGUL	131	689	683	615	608	606
COMMERCIAL - SMALL:						
BRANDON	348	1,612	1,592	1,415	1,395	1,389
SOUTHEAST	348	1,639	1,620	1,443	1,423	1,416
ICGUL	348	1,712	1,692	1,515	1,495	1,489

GREATER WINNIPEG GAS COMPANY

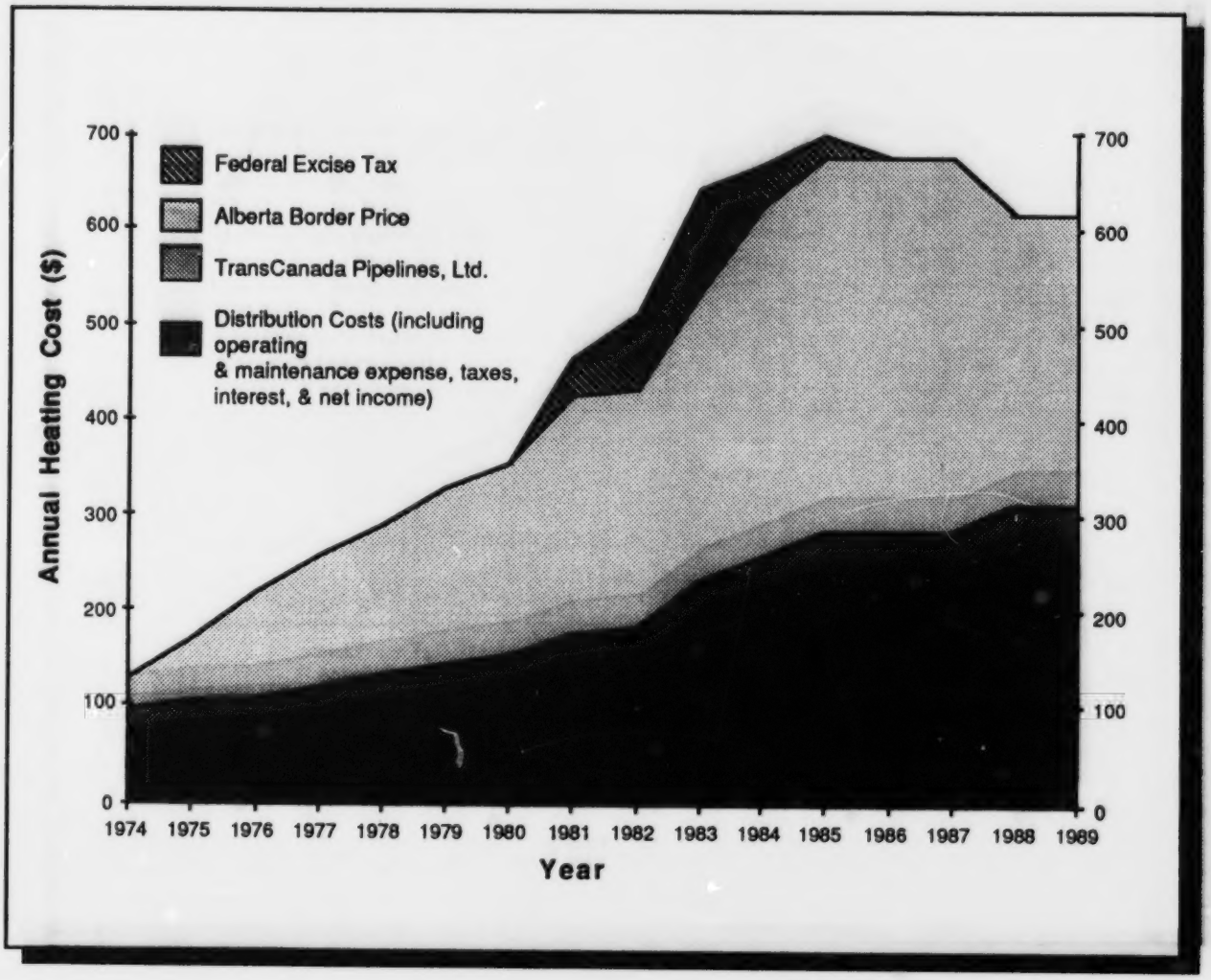
The Board approved Buy-Sell Agreements entered into by the GWG with seven (7) of its large volume users in Manitoba including: Pembina Mountain Clays Incorporated; Boeing of Canada Ltd.; Burns Meats, A Division of Burns Foods (1985) Limited; MacMillan Bathurst Inc.; Westeel, A Division of Jannock Steel Fabricating Company; University of Manitoba; and Molson Brewery Manitoba Ltd.

The Company made an application to the Board to extend its existing franchise area in the Rural Municipality of Macdonald. Following a public hearing held on September 1, 1988 the Board issued Order No. 127/88 dated September 9, 1988 approving the said extension.

The Company did not apply for an increase in rates in 1988 even though there were increases in its rate base for 1987. The Company's last rate base application was heard by the Board in 1987 for the year ending December 31, 1986. The Board, however, reviewed the 1987 operating results of the Company and notes that on a weather normalized basis, the Company earned a rate of return on rate base of 12.04% which is lower than the 12.35% rate of return currently allowed by the Board and set out in Order No. 123/87.

Details of the historical annual heating cost of an average residential customer, historical rates of return earned by the Company and the distribution utility revenue are shown on the following Figures 1, 2 and 3 respectively.

FIGURE 1

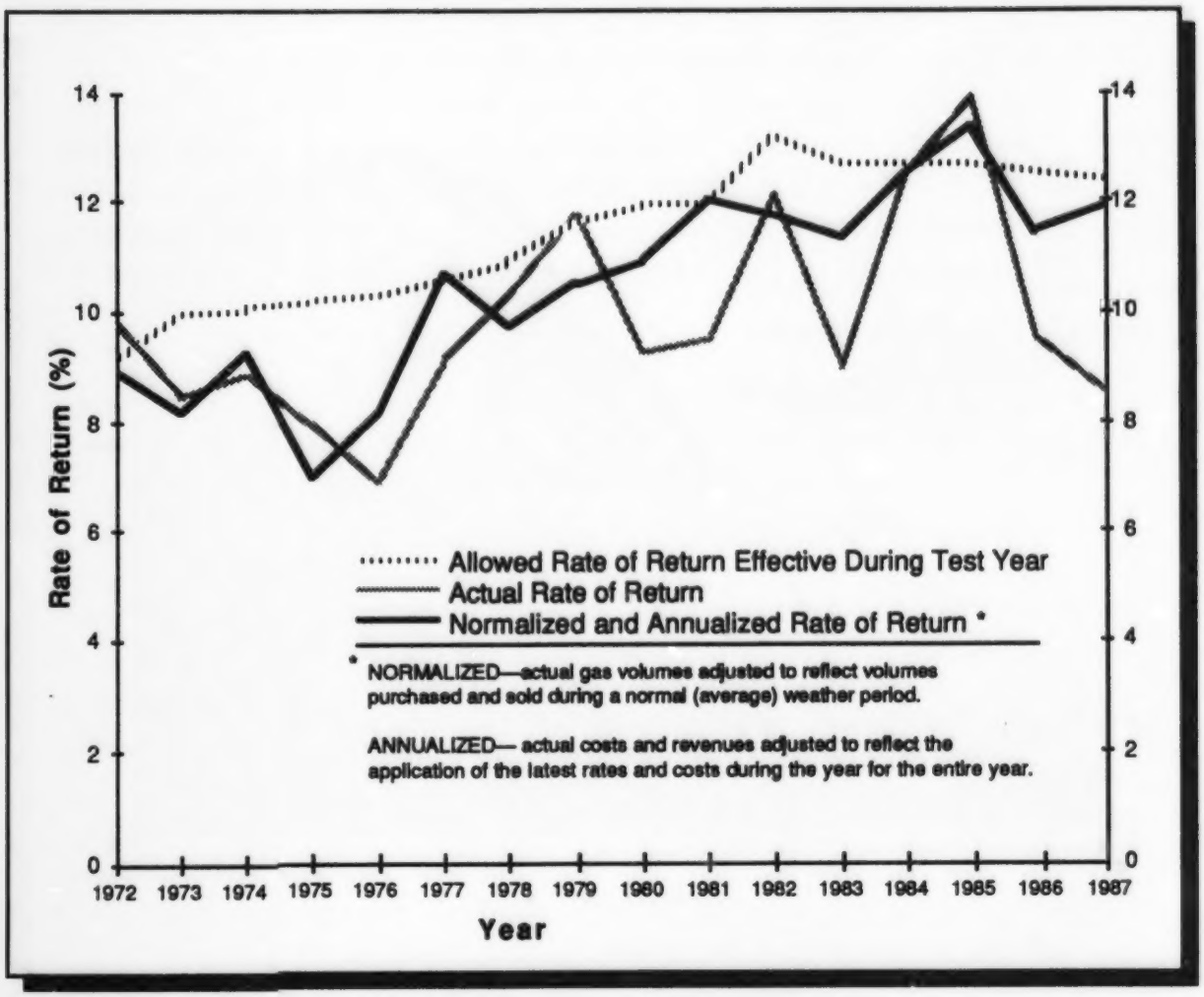


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

Greater Winnipeg Gas Company

Based on usage of 130 Mcf/year, which represents only space heating. Hot water heating is not included. Due to conservation effects, space heating consumption has declined from 142 Mcf/year in 1975. At January 1, 1989 rates, 142 Mcf would cost $660

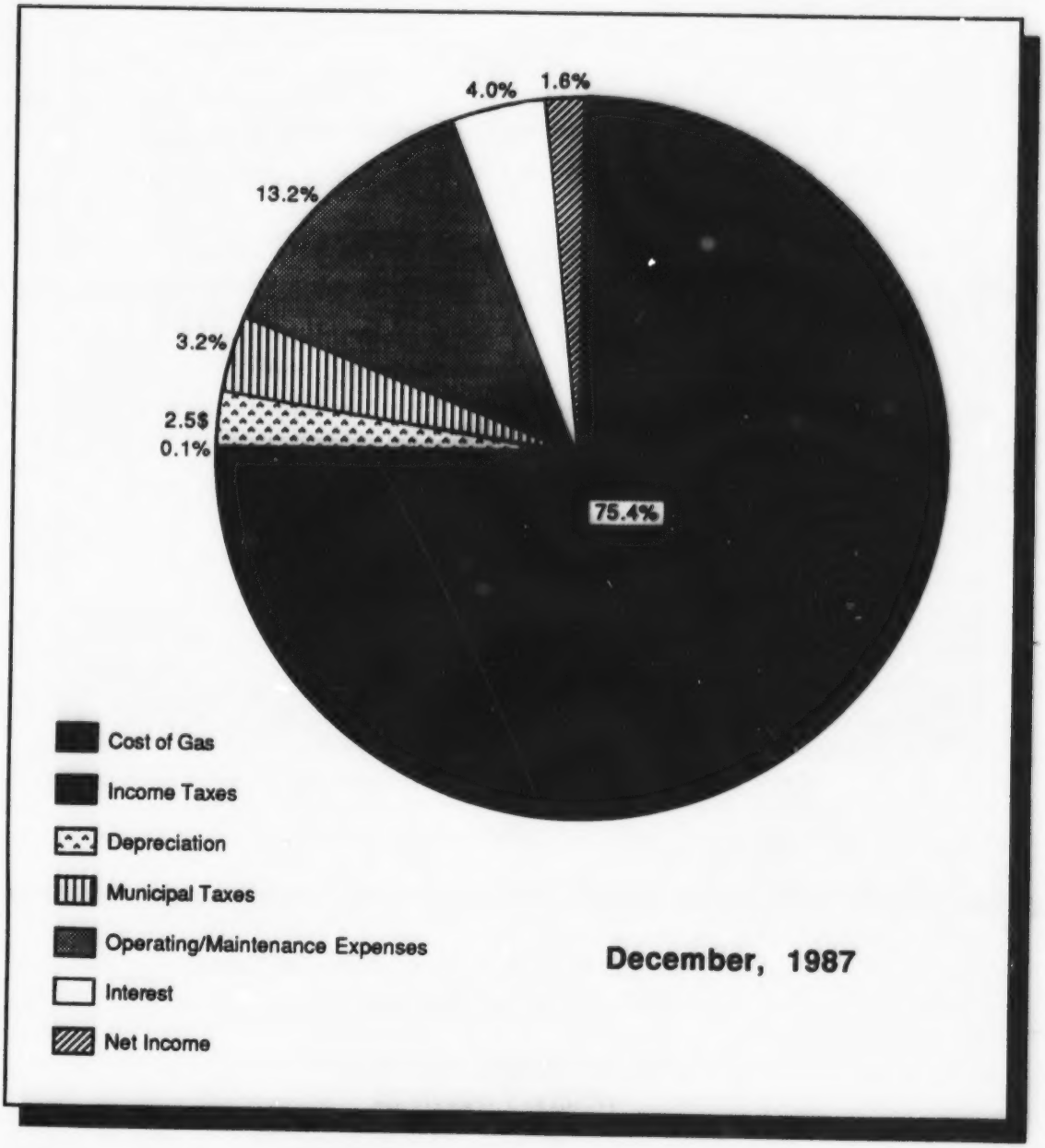
FIGURE 2



RATE OF RETURN ON RATE BASE
for
Greater Winnipeg Gas Company

NOTE: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, Plant and equipment

FIGURE 3



DISTRIBUTION OF GAS UTILITY REVENUE
Greater Winnipeg Gas Company

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

ICG UTILITIES (MANITOBA) LTD.

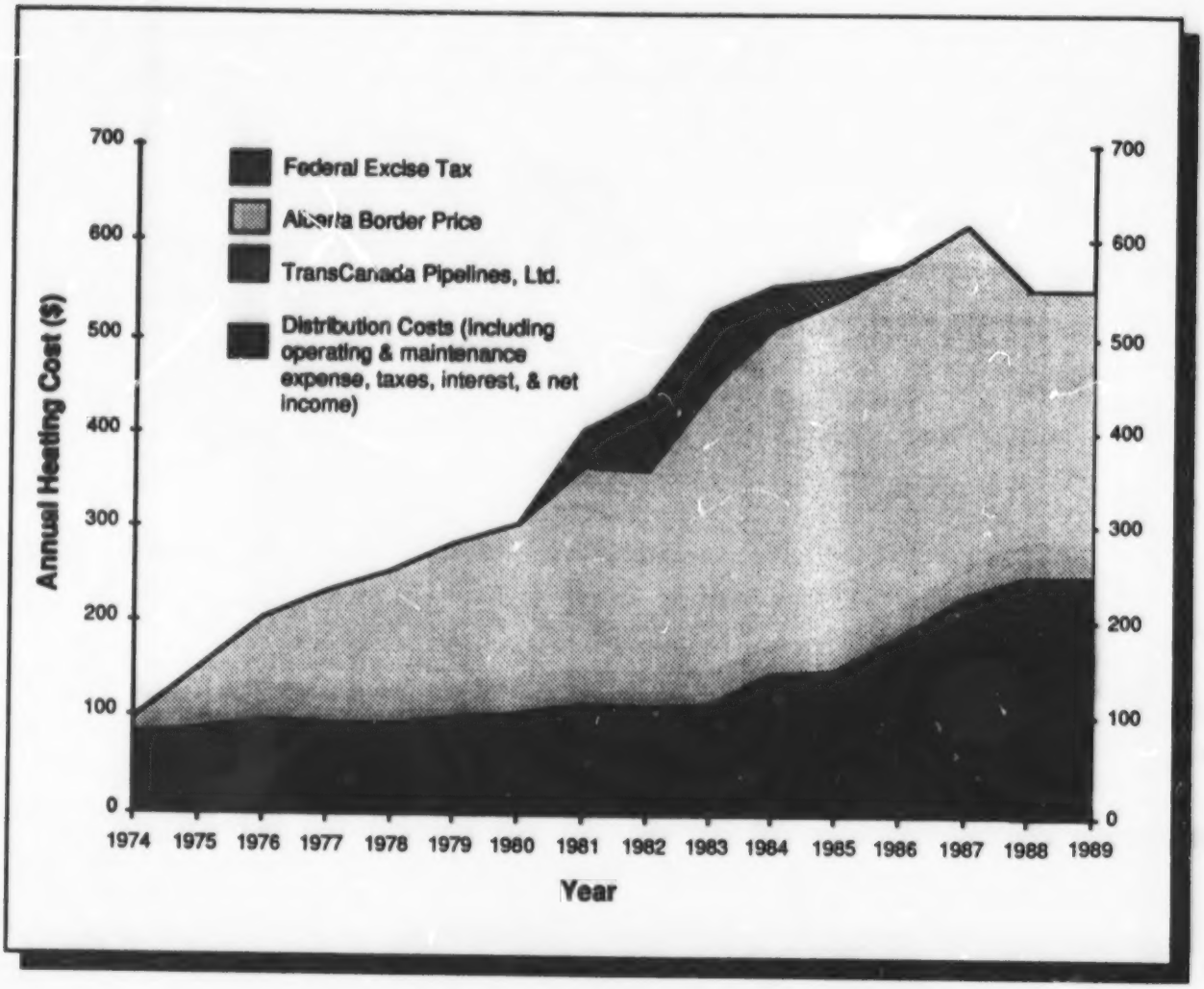
The Board approved a buy-sell agreement entered into by ICG with Burns Meats, A Division of Burns Foods (1985) Limited.

The Company did not apply for an increase in rates in 1988 even though there were increases in its rate base for 1987. The Company's rate base was last examined for the year ending December 31, 1985. The Board, however, reviewed the financial operating results of the Company for the year ending 1987 and noted that the Company earned on a weather normalized basis, a rate of return on rate base of 13.07% which is slightly lower than the currently allowed rate of return of 13.42%.

Details of the annual heating cost of an average residential customer in the Company's various divisions and of the historical rates of return earned by the Company are shown in Figures 4(a), 4(b), 4(c) and 5 respectively.

In Order No. 156/88 dated December 29, 1988 the Board authorized the issuance of equity shares with a fair market value of $2.8M by ICG to ICG Utilities (Canada) Ltd.

FIGURE 4(a)



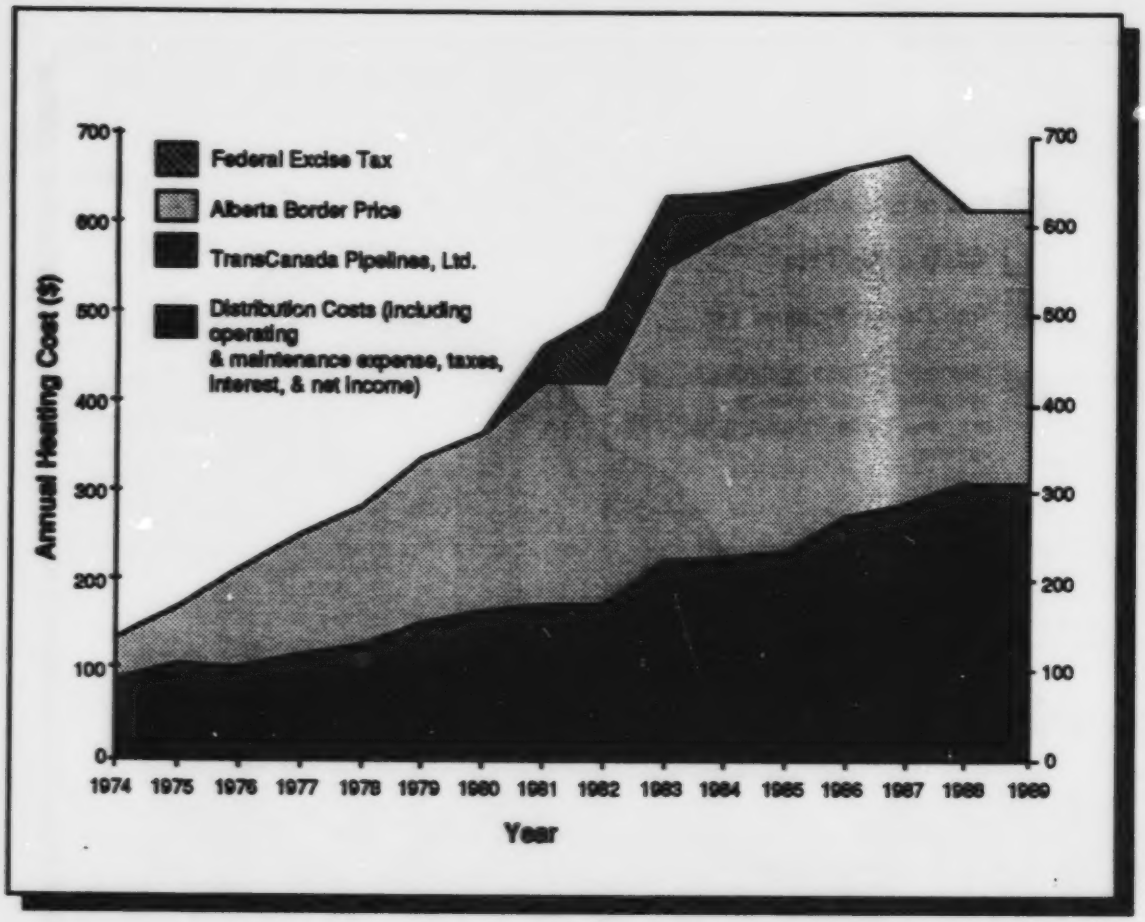
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Brandon Division

(Includes Brandon, Forrest, R.M. of Cornwallis, R.M. of Elton, and R.M. of Odanah)

Based on Usage of 130 mcf/year

FIGURE 4(b)



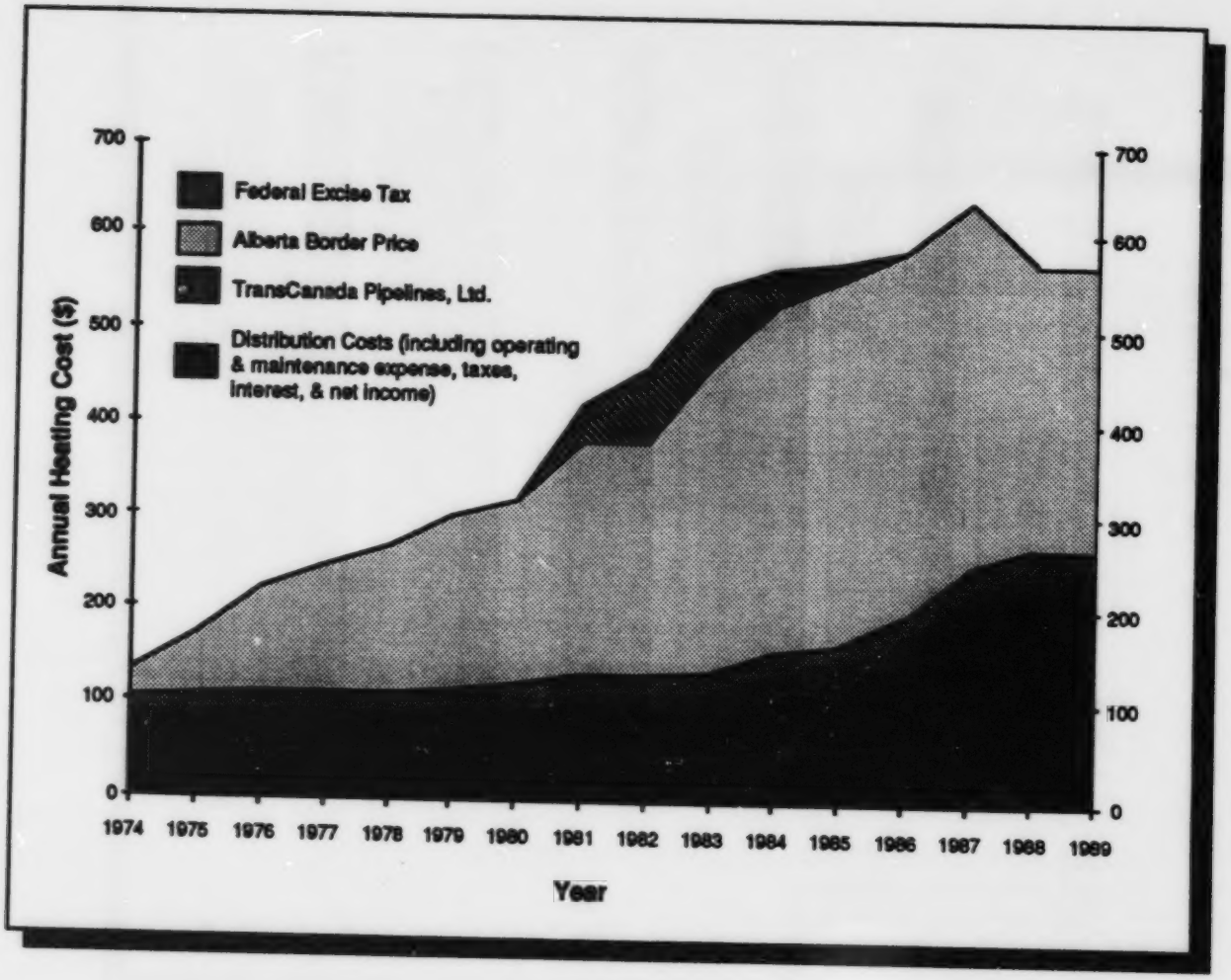
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
ICGUL Division

(Includes communities of Pinecarth, Dauphin, Gilbert Plains, Grandview, Grunthal, Hamiota, Inglis, MacGregor, Miniota, Minnedosa, Mitchell, Neepawa, New Bothwell, Niverville, Otterburne, Portage la Prairie, Rivers, Roblin, Russell, Ste. Anne, Steinbach, St. Claude, St. Lazare, St. Pierre, and Virden)

Based on Usage of 130 mcf/year

FIGURE 4(c)

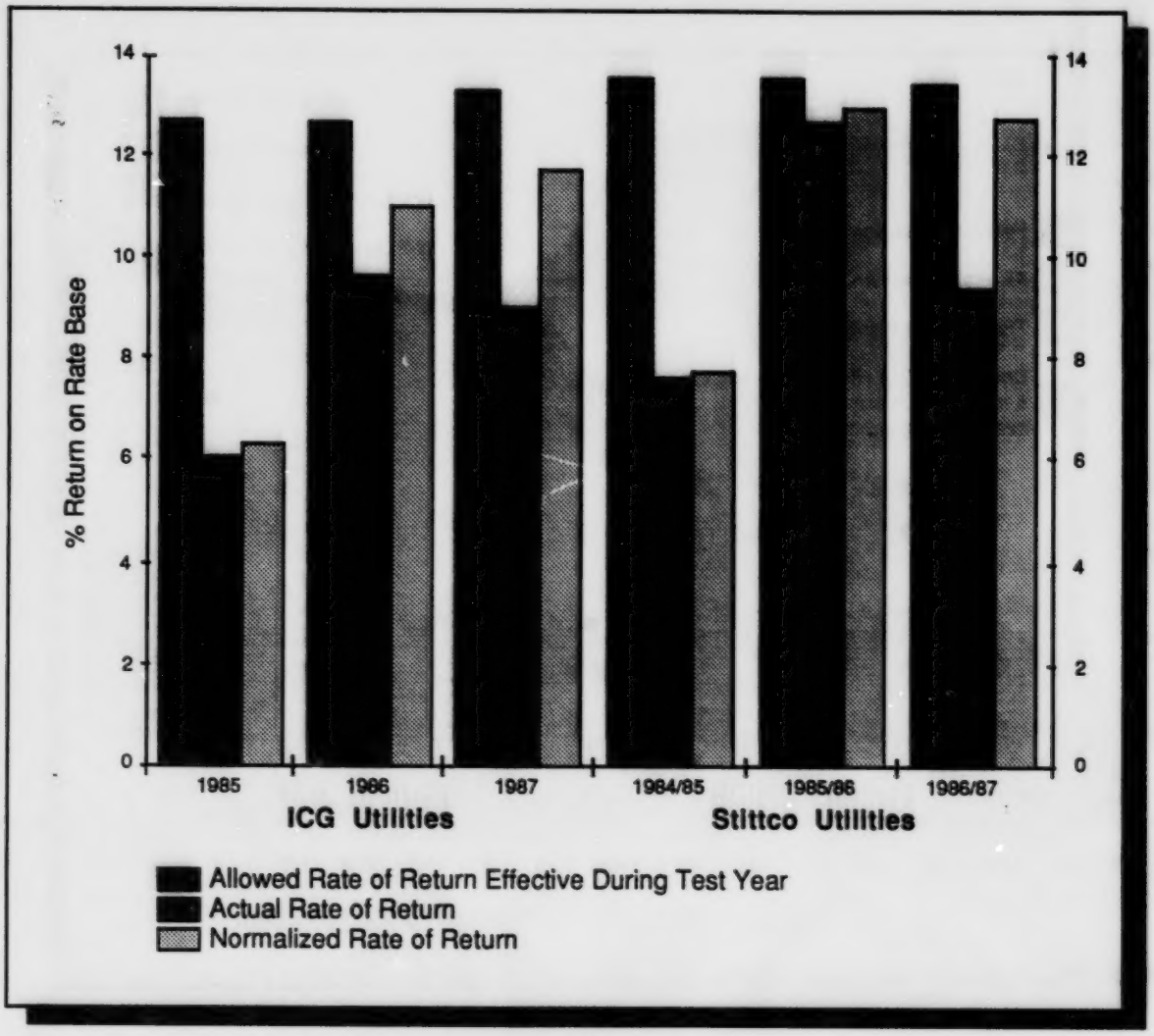


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Carberry/Southeast Division
(Includes communities of Altona, Carberry, Carman, Dominion City, Elm Creek, Emerson, Letellier, Morden, Morris, Plum Coulee, St. Jean, St. Joseph, and Winkler)

Based on Usage of 130 mcf/year

FIGURE 5



RATE OF RETURN ON RATE BASE
for
ICG Utilities (Manitoba) Ltd
and.
Stittco Utilities Man Ltd.

NOTE: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, plant and equipment.

Actual and normalized rates are not available for 1988.

PROPANE GAS DISTRIBUTION UTILITIES

STITTCO UTILITIES MAN. LTD.

The Company did not apply for a rate base determination based on the test year ending July 31, 1988. However, the Board did review the operating results of the Company for that year and determined that the Company earned, on a weather normalized basis, a rate of return on rate base of 12.9% which is lower than 13.75% rate of return currently allowed by the Board and set out in Order No. 7/87.

Each year, the Company tenders for its annual supply of propane. In 1988 the Company entered into a contract with its parent, Stittco Energy Limited for the supply of propane for one year commencing October 1, 1988.

MHRC OWNED DISTRIBUTION SYSTEM

Pursuant to The Gas Pipe Line Act the Board monitors the operations of the MHRC owned propane distribution system with respect to safety matters.

The MHRC distribution system services MHRC owned facilities in Churchill including some row houses, apartments and the large hospital/recreation centre/school complex.

In this regard the Board reviews the operating and maintenance procedures and records to ensure that, with respect to the pipeline system particularly, MHRC or its designate or operator conducts the work in accordance with the CSA Standards adopted in Manitoba.

This particular function has been performed by the Board since the installation of the System in 1975.

MANITOBA TELEPHONE SYSTEM

During 1988 the Board issued 36 Orders relating to matters such as improvement of service and specific adjustments in the General Tariff of the Manitoba Telephone System (the System or MTS).

Other matters dealt with by the Board in 1988 include the following:

1. Business Jacking:

   MTS applied to the Board in 1988 for approval allowing the "jacking" of business services. Residential "jacking" has been allowed in Manitoba for some time. The System in its application stated that the use of business jacking will reduce installation and repair visit time and also, will provide business customers the same flexibility and portability enjoyed by the existing residential market. The Board, in Interim Ex Parte Order No. 3/88 approved the System's application which Order was confirmed in Order No. 106/88.

2. Amortization of Installation Charges for Residential Subscribers:

   The Board in Order No. 59/86 recommended that the System review its installation charge policy for residential subscribers and consider whether billing the installation charges in two or three monthly installments is an

appropriate rate alternative as opposed to requiring new customers to make a single large lump sum payment at the time an application for new service is made. The installation charges for residential subscribers in total as of December 31, 1988 are $51.95.

Following its analysis the System in a letter dated July 29, 1986 applied to the Board for a change in its policy. For an administrative fee of $1.70 new subscribers would be permitted to pay the installation charge in three monthly installments. This was approved by the Board in Order No. 39/88 dated March 1, 1988.

3. Cellular Mobile Radio Network Access Services:

On October 2, 1987 the System filed an application with the Board for approval of this service providing authorized Cellular Service Operators, namely Cantel Inc. and MTS Cellular, access to the public switched telephone network. This application was the subject of a public hearing held by the Board on December 14 and 15, 1987. It is noted that as Cantel Inc. is deemed a telecommunication carrier in Manitoba, Subsection 44.1(1) of The Manitoba Telephone System Act required Lieutenant-Governor-in-Council approval allowing the interconnection. In this regard Order-in-Council No. 631/87 was released on August 21, 1987.

Of particular concern to the parties of the hearing was the requirement for the Cellular Service Operators to pay the System a fee in instances when, to connect the called and calling party, no use of the System's network was required. This is commonly referred to as

"by-pass". In the opinion of the Board, the Order-in-Council prohibited this "by-pass" and accordingly, the Cellular Service Operators, were obligated to pay rates of MTS as though the system were used to connect the call. Another issue related to the concerns of Cantel Inc. was that MTS Cellular's operations should be closely examined to ensure that MTS Cellular, a competitive provider, is not subsidized by the general revenues of the System. In this regard the Board accepted the assurances of the System that:

"...MTS Cellular is to be set up as an entirely separate profit company with complete accounting for all of the costs that are shared or contributed by MTS as an entity. So that there will be full accounting, and that will available to the MTS Board of Commissioners."

Having reviewed the System's application, the Board in Order No. 45/88 dated March 16, 1988 approved the cellular mobile radio network access service requesting further details of the costs and revenue of providing the said service following some operating experience.

4. Manitoba Relay Service:

The System in its application dated March 22, 1988 stated that the Manitoba Relay Service would provide equal access for the severly hearing-impaired, deaf or speech-impaired Manitobans to the telephone network by communicating over the telephone through the use of a Telecommunication Service. While the relay service operators would be located in Winnipeg, it would be accessible to all customers in the Province by the use of a toll free 800 number. Accordingly, relay service customers

would only pay the normal long distance rates between the called parties notwithstanding such calls are re-directed through Winnipeg. The System's application was supported by the Manitoba League of the Physically Handicapped.

The Board in Order No. 95/88 dated June 9, 1988 approved the said application.

5. Creation of Rate Group 10 (Winnipeg):

The Manitoba Telephone System applied to the Board on May 30, 1988 for the creation of Rate Group 10 and a telephone number count for the said group of 375,001 to 600,000. This higher rate group was intended to accommodate the increasing telephone number count in Winnipeg which is presently paying monthly telephone rates commensurate with Rate Group 9 which has a telephone number count of 250,001 to 375,000. As of July, 1988 the Winnipeg telephone number count was 387,912 which substantially exceeded the System's original projection and exceeded the upper limit of Rate Group 9.

The System, at the time the application was filed, had 9 rate groups in Manitoba. Subscribers in each higher rate group 1 through 9 are required to pay increasing monthly rates recognizing that in each group the value of service to the subscribers increases as the telephone number count increases.

The System estimated that the proposed rates for the Rate Group 10 category would result in an increase in System revenues of $2.7M based on:

" - $0.45 per month increase for all residential phones including hospital patient service;

- $1.15 per month increase for businesses for each individual and multi-party service;

- $1.55 per month increase for each Multi-Line service trunk; and

- $0.30 per month per line for Centrex service."

The System stated very clearly to the Board that the application was not a revenue requirement issue, as the creation of Rate Group 10 was necessitated by accommodating a growing subscriber base in Winnipeg so as to remain consistent with rate changes that have taken place in lower Rate Groups in rural Manitoba.

A considerable amount of time was taken up at the hearing reviewing the appropriateness of the System's telephone number counting method in light of changing technology and Manitoba's demographics.

After hearing the parties the Board approved the System's application making some changes to the System's number count methods and to the upper limit of the proposed Rate Group 10. The upper limit was reduced from 600,000 to 500,000 numbers.

The Board also required the System to undertake a detailed study of the current and alternative rate group counting methods. Such alternative counting methods might be less subjective and would reflect changing technology and demographics in Manitoba.

6. Cost Awards:

The Board dealt with three (3) applications for costs by Intervenors in 1988. Two (2) applications were allowed for a total of $2,302.49 and one (1) was denied for $140.22. In the latter case the Board found that the Intervenor did not make a significant contribution to the proceeding.

7. Long Distance Inter-Provincial Toll Reduction:

By letter dated October 3, 1988 the System applied for an Interim Ex Parte Order approving a reduction in the System's inter-provincial and Canada-U.S. toll rates. This application represented the second phase of a general inter-toll rate restructuring with the first phase being approved by the Board in Order No. 94/87. Subsequent reductions are planned for 1990. The System noted that the average decrease associated with this application is 8.2% and that for 1990 a 14% toll reduction is proposed.

The Board, in Interim Ex Parte Order No. 146/88 dated November 25, 1988 approved the System's application noting that the lower rates will be beneficial to the System's customers who make toll calls to other Provinces and the U.S.A. However, the Board also noted that this shifting or restructuring of rates continues to place upward pressure on rates for basic services and on intra-Manitoba long distance calling rates.

While competitive vulnerability in the inter-toll network was identified as one of the causes of these pressures to reduce inter-toll rates the Board expected to receive further information from the System at its upcoming General Tariff Rate Application hearing in early 1989 with respect to this competitive vulnerability.

8. 1989 and 1990 General Tariff Rate Increases:

The System in a letter dated October 3, 1988 applied to the Board for a General Tariff Rate increase effective April 1, 1989 and April 1, 1990. This application was summarized by the Board in its Notice of Public Hearing dated October 7, 1988 and is noted hereunder:

(a) A general rate increase for each of the years 1989 and 1990 on all residence primary exchange service rates, consisting of a $0.45 per month increase in 1989 and a $0.55 per month increase in 1990 on single line and multi-party residence local service rates in Winnipeg, and a $0.30 per month increase in 1989 and a $0.40 per month increase in 1990 on single line and multiparty residence local service rates in all other rate groups. Single line and multiparty enhanced residence service rates will increase by $0.55 per month in 1989 and by $0.65 per month in 1990 in Winnipeg, and by $0.40 per month in 1989 and by $0.50 per month in 1990 in all other rate groups.

(b) A general rate increase for each of the years 1989 and 1990 on all business primary exchange service rates, consisting of a $1.20 per month increase in 1989 and a $1.45 per month increase in 1990 on business single line and multiparty local service rates and multiline capacity-rates trunk lines in Winnipeg, and a $0.60 per month increase in 1989 and a $0.75 per month increase in 1990 on business single line and multiparty local service rates and multiline capacity-rated trunk lines in all other rate groups.

(c) A $0.25 per month increase for each of the years 1980 and 1990 on Centrex service rates in Winnipeg, reflecting an increase in the local network portion. Centrex service rates in Brandon will increase $2.45 per month in 1989 and $0.15 in 1990.

(d) A 10% rate increase for each of the years 1989 and 1990 on element service charges, including line connection charges, premise visit charges and work unit charges.

(e) A general 5% rate increase for each of the years 1989 and 1990 for Intra Message Toll services with a 1 cent per minute minimum across all mileage bands. Where increases are greater than 1 cent per minute, rates will be rounded to the nearest cent. Equivalent rate increases will be applied to Foreign Exchange, WATS, 800 Service, Between Friends, operator and Calling Card charges and similar toll services.

(f) A 5% rate increase for each of the years 1989 and 1990 on local private lines for rate groups which include Brandon and Winnipeg, with no local private line rate increases being requested for all other communities.

(g) Rate increases of approximately 5% for each of the years 1989 and 1990 on miscellaneous services, for example, select premium telephone sets such as Citation and Solo, and custom calling features.

(h) Inter-provincial Toll Services rate reductions effective on January 1, 1990. Percentage rate reductions for a typical 5-minute direct distance dialed call ranging up to 18% in mileage bands from 450 miles and above.

(i) Pursuant to Board Order No. 94/87 dated May 28, 1987, the System will present proposals for major improvements in rural service, including the extension of individual line service to all MTS customers, the expansion of toll-free calling areas to form 60 community calling areas, calling options for customers in exchanges adjacent to Brandon and Winnipeg, and an optional toll calling package for all System customers.

(j) The System will present a proposal for an accelerated program to modernize switching equipment in its exchanges.

(k) The System will present a proposal to provide improved service for persons with physical disabilities.

(l) The System will also present rate proposals associated with the programs described in (i) to (k) above, including a Service Improvement Assessment of $1.00 per month to be charged to all System residence customers, $2.50 per month for single line and multiparty business customers, and $4.00 per trunk per month for multiline business customers, and $0.80 per line for all Centrex customers, as well as other specific charges associated with components of the programs.

This matter was scheduled by the Board to be heard commencing on February 20, 1989. Rural meetings were scheduled for the communities of The Pas, Brandon and Arborg.

MANITOBA HYDRO

Pursuant to Section 39 of The Manitoba Hydro Act the Board conducted a review of hydro rates set by Manitoba Hydro effective April 1, 1986, April 1, 1987 and April 1, 1988 and on March 31, 1988 the Board filed its report to the Minister of Energy & Mines pursuant to Section 39(11)of the same Act. A summary of the Board's major conclusions and recommendations are noted hereunder:

1. The three rate increases referred to above and the resulting prices that are charged for power supplied by the Corporation are reasonable.

2. The Board should have the power to review and approve all future rate changes, as well as review Hydro's plans and forecasts related to its growth and development. Major capital expenditures, such as new generating facilities, should be reviewed by this Board to determine their impact on Manitoba Ratepayers.

3. Manitoba Hydro must be a self-supporting operation. Reserve levels are necessary to ensure rate stability and rate predictability.

4. The Board concludes that Hydro's target reserve level of $272 million is not excessive. Given the specific risk of drought and the need to protect against rate shock, the target reserves may be too little given all of the risks of the Hydro operation.

5. Based on Hydro's current forecast (IFF87-3) and testimony (Transcript pages 303, 981, and 1704), when Limestone comes on stream in 1991, costs associated with Limestone will likely exceed its related revenues, in both 1991 and 1992. As a consequence, Hydro's reserves will be lower than they otherwise would have been. The Board notes that Hydro has not ruled out the possibility of additional rate increases in 1991 and 1992 to offset Limestone losses.

   Irrespective of how the initial losses from Limestone are handled for rate setting purposes, the effect on rates must be clearly communicated to the ratepayers.

6. The Manitoba Hydro Board should adopt a general debt/equity ratio target and begin moving towards this target.

7. Prior to Hydro and the Government finalizing arrangements for the distribution of net revenues between Hydro and the Manitoba Energy Authority, there should be a public hearing where interested parties could make known their views. The Board believes this is necessary as the final arrangements will impact Hydro's revenues and net income, and hence, the rates that must be paid by domestic customers. This public hearing should be held in the near future. An appropriate forum could be the Public Utilities Board of Manitoba.

8. Revenues and costs related to export sales should be segregated in Hydro's accounting records. The purpose of this segregation is to ensure that the domestic ratepayer is not subsidizing export sales.

9. With respect to Hydro's rate design, the Board recommends:

   (a) That in any future review involving rate changes, the Minimum Filing Requirement should include proof of revenue.

(b) That Hydro address the imbalances in the Revenue Cost Coverage (RCC) ratios by defining a zone of reasonableness and work towards bringing all classes within this zone of reasonableness, with particular reference to street lighting and small general service.

10. While the Board is impressed with the potential effect of imposed target reductions in operating and administrative costs (as recommended by an intervenor), the Board recommends, as an interim measure, that the Manitoba Hydro Board make every effort through reviews and studies (both by internal and external personnel) to contain and reduce the year to year increases in expenditures. The Board will review Hydro's initiatives and progress at future hearings.

11. The Board recommends that future large capital projects be supported by a Least Cost Planning study all through the approval process.

Since the issuance of this report, The Government of Manitoba proclaimed The Crown Corporations Public Review and Accountability and Consequential Amendments Act which Act now requires that Manitoba Hydro file their rates to the Board for its approval.

In this regard Manitoba Hydro filed with the Board an application dated December 5, 1988 for approval of revised hydro rates effective April 1, 1989. Details of Hydro's application was set out in the Board's Notice of Public Hearing dated December 20, 1988. Hydro advised the Board that the proposed revenue increase approximates $31,400,000 for a 6% increase in general consumer revenue. The proposed impact on individual customers was set out in the Notice.

The Board has arranged public hearings in Winnipeg for March of 1989 and rural meetings will be conducted in the communities of Dauphin, Thompson and Morden.

MANITOBA PUBLIC INSURANCE CORPORATION

Pursuant to Order-in-Council 1389 and the newly proclaimed Crown Corporations Public Review and Accountability and Consequential Amendments Act (the Act), the Manitoba Manitoba Public Insurance Corporation (MPIC) filed its first application with the Board for interim approval of revised and new compulsory automobile insurance rates effective March 1, 1989 and driver premiums effective February 1, 1989.

Details of the application of MPIC were provided in the Board's Notice of Public Hearing dated November 21, 1988 and a summary is provided hereunder:

1. The establishment of compulsory premiums effective February 1, 1989, which premiums are assessed on Manitoba drivers' licences, including basic premiums, merit discounts, demerit point additional premiums and accident surcharges.

   The basic annual drivers' premium is currently set at $35. Drivers who quality for the merit discount receive a reduction in the basic premium of $5 for each merit point on their drivers' licences. Demerit point additional premiums range between $150 and $999, depending on the number of demerit points accumulated. Accident surcharges are assessed at $250 for the second at-fault accident

in a 36-month period, $500 for the third accident and $750 for the fourth and each subsequent accident.

No changes to these premium assessments are proposed for 1989.

2. Adjustments to the basic compulsory vehicle insurance rates, effective March 1, 1989. The proposed 1989 rate schedule represents an overall average increase of 2.8% in basic compulsory vehicle insurance rates. However, individual premium adjustments may vary, depending upon vehicle classification.

For full particulars of the proposed 1989 rate schedule, interested parties should examine the Corporation's application, and the material filed in support thereof, as noted hereunder. Highlights of the proposed rate changes are as follows:

- Reductions of two per cent in basic Autopac rates for vehicle owners who qualify for Autopac's merit discount program. As of October 31, 1988, owners of approximately 273,000 vehicles were in this category.

- Increases ranging from one per cent to 10 per cent for vehicle owners paying non-merit premiums. As of October 31, 1988, owners of approximately 340,000 vehicles were in this category.

- No change in basic Autopac rates for approximately 111,000 vehicles in other rating categories.

The Corporation is also proposing a number of changes to other aspects of the basic Autopac program which may have varying

degrees of impact on premiums. Following is a description of these proposed changes:

Coverages

- Underinsured motorist coverage to a limit of $200,000 to be added to the basic coverage at no additional premium.

- Passenger hazard coverage to be added to basic Autopac coverage for motorcycles at no additional premium.

- A coverage limit of $1,000 to be placed on sound and electronic communications equipment.

- Loss-of-use allowances for rental of substitute transportation to be increased from a maximum of $600 to a maximum of $900.

- All-perils deductibles to be reduced from $300 to $150 for Mopeds and from $250 to $150 for Pleasure Use Utility Trailers.

- Trucks over 16,330 kg. gross vehicle weight (other than farm trucks) and Public Service Vehicle (P.S.V.) buses to be excluded from basic all-perils coverage. Owners of these vehicles will still be covered for third party liability and accident benefits under the basic Autopac program.

- Extra-provincial Commercial and P.S.V. Trucks and Buses to be excluded from basic third party liability and all-perils coverage. Third party liability coverage for these vehicles will be regulated by the Manitoba Motor Transport Board and vehicle registration authorities.

Insurance Use Rating Categories

- New use category (School) to be established for full-time students operating their vehicles to and from school, university, etc.

- New use category (Farm Car-All Uses) to be established for owners of Farm Cars using the vehicles to travel to and from work or school or for business purposes other than farming.

- New use category (All-Purpose Truck) to be established for owners of trucks using the vehicles to travel to and from work or school.

- New use category to be established for Handi-Cab Vans, which were previously included in the Private Bus use category.

- Limit of 1,609 kilometres per year and a maximum of four trips per month to be placed on the use of Preferred vehicles to travel to and from work or school or part way to and from work or school, except for the transportation of dependent children to and from school.

- Four new classifications to be established for Motor Homes--Recreational, Preferred, All-Purpose and Business.

- Owners of Lease vehicles to be permitted to insure vehicles according to actual use (e.g. Preferred, All-Purpose, Business).

- Commercial Truck use catetory to be divided into four separate classifications based on gross vehicle weight.

- Long-haul Commercial and P.S.V. Truck and Bus use categories to be redefined to provide separate categories for vehicles operating within Manitoba and those operating extra-provincially.

Merit Discounts

- Requirement that qualifying vehicles must be insured for a total of eight months to be eliminated.

- Onus for vehicle discount eligibility shifted from vehicle's claims record to registered owner's claims record.

- Additional insurance uses to be eligible for discount: Motorcycles, Mopeds, Motor Homes (all four classifications), School, All-Purpose Truck and Farm Car-All Uses.

- Merit discounts for drivers' and vehicle premiums to be made available to out-of-province motorists moving to Manitoba.

Time Payments

- Time payment administration fee to remain unchanged at $10.

- Late payment fee to remain unchanged at $20.

- Motorcycles and Mopeds to be eligible for time payment plan.

- Payment due dates to be changed to coincide with middle and end of month.

Premium Refunds

- Motorcycle and Moped premium refunds to be calculated on the same basis as for passenger cars.

The Act as proclaimed does not require that MPIC obtain the Board's approval regarding classifications and further, requires that the Lieutenant-Governor-in-Council be satisfied that the MPIC rates have obtained the Board's approval prior to the issuance of the required regulation.

The Board conducted public hearings in December, 1988 regarding the application and later, issued Interim Order No. 153/88 dated December 23, 1988.

The Board having reviewed the evidence determined that MPIC had proved a prima facie case as to both financial need and urgency and therefore approved the application on an interim basis. Recognizing that more time was required by the Board and the Intervenors to review the Corporation's rate making policies and procedures the Board requested that the Corporation provide written evidence relating thereto by no later than April 15, 1989 which evidence will be the subject of public hearings as soon as possible thereafter.

The Board further requested that the Corporation file a report at each subsequent hearing with the Board on its planned programs resulting from the Corporation's review of the Autopac Review Commission Report recommendations.

THE MUNICIPAL ACT

WATER AND SEWER UTILITIES

The Board issued a total of 86 Board Orders respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 43 applications pursuant to Section 563 of The Municipal Act which requested approval and authorization for method of recovery pertaining to operating deficits for the year ending December 31, 1987. In respect of the aforesaid 43 applications, Orders were issued authorizing same.

(ii) 31 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist them with their rate design and to ensure that sufficient revenue would be provided to cover normally anticipated expenses plus an adequate contingency allowance. Applications were handled by public hearing or returnable date notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 12 applications for establishment of or amendment to utility reserve funds pursuant to Section 569 of The Municipal Act were processed and Orders issued to authorize the creation of the reserve fund.

The Board authorized 31 requests by municipalities to make expenditures from their utility reserve funds established under Section 569 of The Municipal Act for miscellaneous purposes relating to the operations of the utilities.

The Board staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications thus reducing the cost to the municipalities in preparing a report. Board staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of rate studies, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases only, or for the establishment of utility rates.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act the Board issued 3 Orders respecting appeals of decisions of The Highway Traffic Board.

The applications dealt with appeals by the Department of Highways and Transportation against the issuing of permits to construct access driveways onto Limited Access Highways designated by The Highway Traffic Board.

All three appeals were allowed and Orders issued.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act. In some instances, hearings may be reconvened to permit further evidence to be presented to the Board and occasionally on-site inspections are required.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1987, the Board issued 28 renewal licences. Nineteen applications for revisions in fees for services, as well as one application for sales contract revision, two for Authorized Trustee agreement revisions and one for surety bond agreement, were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

During the year the Board issued renewal licences for the operators of 10 cemeteries, 6 columbariums, 3 mausoleums and 4 crematories, and 2 initial crematory licences. Forty-three licences and 9 transfer licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 10 applications for revisions in schedules of fees for spaces, materials and services were authorized.

The Board continued to monitor the maintenance and passing of accounts of a Judge of the Court of Queen's Bench in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act. During the year, the passing of accounts was completed for 3 cemeteries.

REVENUE

Most costs incurred by the Board in carrying out its duties were substantially recoverable from the utilities and agencies under its jurisdiction. The 1988 revenue collected was as follows:

Public Utilities	$1,070,395.64
The Prearranged Funeral Services Act	725.00
The Cemeteries Act	5,747.50
The Highways Protection Act	100.00
Miscellaneous	47.40
	$1,077,015.54

This data covers actual receipts only for the period covered by this Report, ending December 31, 1988. Receipts after that date will be recorded for the subsequent year.